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To: County and District Superintendents
Charter School Administrators

Attention: County and District Chief Business Officers

ORIGINAL SIGNED BY:

From: Jack O'Connell

Subject: **MAY 2003 BUDGET REVISION—PRELIMINARY OVERVIEW**

Yesterday Governor Gray Davis released his revised budget proposal for 2003-04. The May Revision proposal reflects a revised budget gap of \$38.2 billion and the impact of lagging state revenues from a delay in the expected economic recovery. In response to public and legislative concerns, however, the Governor's revised budget seeks to protect education and other critical government services.

Reflecting these priorities, the revised budget includes a number of changes to the Governor's January proposals both for the 2002-03 and 2003-04 fiscal years. This memo provides a preliminary overview of the Governor's revised budget proposals for K-12 education. We will provide a more detailed overview in the next week. Copies of this memo, as well as future budget-related documents, will be available on the California Department of Education's (CDE) web site at www.cde.ca.gov/fiscal/budgetact/. Copies of budget documents themselves are available through the Department of Finance web site at www.dof.ca.gov.

The Governor's revised 2002-03 Proposition 98 spending level for K-12 education is \$39.2 billion—\$72 million below his January proposal and \$2.3 billion below the budget as enacted last year. This amount reflects the mid-year reductions recently enacted by the Legislature. Including funding both for K-12 and community college programs, the total Proposition 98 funding for 2002-03 is now \$122 million above the minimum guarantee, down slightly from the January estimates due to lower state revenues.

The revised K-12 spending proposal for 2003-04 is \$41.1 billion—\$1.2 billion above the January proposal and \$400 million below the 2002-03 budget as enacted. This results in total Proposition 98 funding for 2003-04 that equals the minimum guarantee; that guarantee has grown \$1.6 billion due to higher revenue projections for the budget year and to a technical change resulting from the elimination of the January proposal to shift child development programs to cities and counties.

In addition to eliminating the proposed shift in responsibility for child development programs to local governments, the revisions also reflect the concerns expressed by the Legislature, the education community and myself over the previously proposed across-the-board reductions to K–12 revenue limits and categorical programs. Instead, the Governor is now proposing a number of targeted reductions to K–12 programs and the continuance of the current-year deferrals enacted by the Legislature. Major changes to the Governor’s January proposal that affect K–12 education include:

- Restoring \$835 million of the across-the-board reductions to categorical programs proposed in the January Budget and replacing them with a series of specific targeted reductions that reflect the Administration’s discussions with the education community and members of the Legislature.
- Restoring the proposed 3.66 percent across-the-board cuts to current and budget-year revenue limits and reducing 2003-04 revenue limits instead by 1.2 percent.
- Restoring a net of \$800 million to reflect the reinstatement of child development programs under Proposition 98 after adjusting for a number of cost-saving reforms proposed by the Governor.
- Providing \$272 million in additional growth funding for revenue limits and special education to reflect an increase in the 2003-04 K–12 ADA growth rate from 1.00 percent to 1.34 percent.
- Modifying the proposed recapture of \$126.2 million in excess property taxes from basic aid districts by reducing the offset to \$20 million and applying it towards categorical funding that would otherwise be provided to excess tax districts.
- Full funding of K-3 Class Size Reduction, Special Education, Child Nutrition, School Safety, and Accountability Programs (including funding for the final 20 percent of funding for 2002-03 programs deferred in SB 18X).
- Increasing federal special education funding by \$69 million for mental health services provided pursuant to AB 3632 of 1984.
- Reducing state testing programs by \$24.7 million to continue efforts to streamline the state’s system of assessments and reduce testing time in schools.

Next Steps in the Process

Legislative hearings on the 2003-04 budget bills (AB 100 and SB 53) are in high gear and are scheduled to conclude shortly. The budget bills, having been amended in each house, will be reconciled by a joint conference committee and are scheduled to be passed to the Governor in late June. Upon receiving the final Budget Bill, the Governor may then exercise his line-item veto before signing the Budget Act of 2003.

As always, if you have any questions or ideas, please call me or my staff at (916) 319-0800.